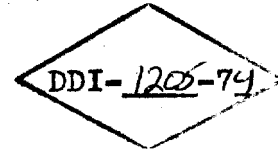




DATE: 19 April 1974



TO: Brg.Gen. Robert C. Taylor
Military Assistant to
Secretary Schlesinger

SUBJECT:

Herewith a response to the Secretary's
request on the terms of Soviet military aid.

25X1 The author is

25X1 extension

25X1
NIO/USSR

Internal Distribution:

Mr. Colby
General Walters
ER
Mr. Proctor ✓
Mr. Ernst
Mr.
Mr. Carver
NIO/RI
NIO/USSR Chron
NIO/CF

25X1

SECRET

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1

25X1

22 April 1974

MEMORANDUM FOR: The Secretary of Defense

SUBJECT: The Terms of Soviet Military Assistance to the
Third World

The USSR has concluded arms agreements valued at \$10.7 billion, with 33 Third World countries since 1956 (see Table 1)*. The arms are usually provided on favorable credit terms and at comparatively low prices. The value of agreements concluded last year was \$1.2 billion.

Credit Arrangements

Over 60% of the value of Soviet arms have been provided under long-term credits with repayment periods of eight to ten years at 2-2.5% interest, after a grace period of one to three years. Moreover, the USSR generally accepts payment in commodities or local currency.

Debt Relief

Many of Moscow's arms clients have been unable to meet their annual payments and have requested some form of relief.

* A comparative study on "The Structure and Functions of US and Soviet Military Assistance Programs" is being written at the Strategic Studies Institute, US Army War College. It is scheduled to be completed in late April.

SECRET

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1

25X1

SECRET

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1

25X1

None, however, has defaulted by outright refusal to honor its debt. Of the 22 countries with payments due during 1970-73, ten -- Afghanistan, Congo, Egypt, Ghana, Guinea, Indonesia, Mali, Sudan, Syria, and Yemen (Aden) -- have had their debt payments rescheduled. For example, Moscow in 1965 agreed to cut Egypt's 1965-67 payments in half and deferred the balance until 1971. A further rescheduling in 1967 postponed all principal payments for 1965-70 until 1971. This moratorium subsequently was extended until 1974. Interest and pre-1965 debt payments, however, continued to be made.

Cash Sales

Cash sales account for less than 8% of Soviet arms contracts. The bulk of these are in the form of down payments made at the time of delivery, with the balance covered under long term credits. Only two countries, Libya and Zambia, have purchased arms on a strictly cash basis.

Discounts/Grants in Aid

Discounts from list prices have become an intrinsic feature of Soviet arms agreements and represent over 30% of the value of arms accords. Although discounting probably is premised on Moscow's assessment of a recipient's ability to pay, political favoritism also has been evident in Soviet pricing policies.

- 2 -

25X1

SECRET

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1

SECRET

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1

25X1

Afghanistan, for example, has received discounts approximating 75%. Discounts to Indonesia averaged about 25%, while arms aid to India has been conducted largely on a no-discount basis. In addition, a few contracts have been concluded totally on a grant basis.

Cost of Equipment

All arms agreements are valued by the Intelligence Community at list/export prices.

25X1

The list/export prices of most types of Soviet arms have been substantially below those charged for comparable Western equipment. Soviet prices, for example, range 40% lower for a medium tank to roughly 50% lower for an advanced fighter aircraft. The dollar valuation does not indicate the cost of producing comparable items in the United States and cannot be converted into Soviet ruble costs by simply applying the official exchange rate.

25X1

25X1

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1
 Third World Countries
 1956-73

Million US \$

<u>Recipient 1/</u>	<u>Value of Agreements</u>	<u>Cash Sales 2/</u>	<u>Credits</u>	<u>Grants or Discounts 3/</u>
TOTAL	10,670	791	6,555	3,324
Afghanistan	455	--	115	340
Algeria	395	--	196	199
Bangladesh	35	--	31	4
Cambodia	12	--	2	10
Congo	14	--	12	2
Cyprus	26	--	13	13
Egypt	3,135	150	1,495	1,490
Ghana	10	--	5	5
Guinea	25	--	15	10
India	1,705	315	1,390	--
Indonesia	1,103	11	824	268
Iran	576	--	576	--
Iraq	1,166	10	677	479
Lebanon	3	--	3	--
Libya	125	125	--	--
Mali	6	--	2	4
Morocco	15	--	10	5
Nigeria	25	16	9	--
Pakistan	68	4	64	--
Peru	14	--	14	--
Somalia	70	--	28	42
Sri Lanka	2	--	--	2
Sudan	75	9	66	--
Syria	1,469	150	951	368
Tanzania	2	--	2	--
Uganda	10	--	5	5
Yemen (Aden)	50	--	47	3
Yemen (Sana)	78	--	3	75
Zambia	1	1	--	--

1. The USSR has also concluded agreements with Burma, Equatorial Guinea, Maldiv Islands and Sierra Leone valued at less than \$1 million each.

2. Includes downpayments as well as commercial sales.

3. Grants are shown as 100% discounts.

25X1

CIA/OER
 Apr 74

Approved For Release 2005/09/29 : CIA-RDP80B01495R000600040013-1